

MEMORANDUM

TO: Mary Ann Borgeson, Chair, Douglas County Commissioner
Clare Duda, Vice-Chair, Douglas County Commissioner
Mike Boyle, Douglas County commissioner
Marc Kraft, Douglas County commissioner
PJ Morgan, Douglas County Commissioner
Chris Rodgers, Douglas County Commissioner
Pam Tusa, Douglas County Commissioner

CC: Thomas Cavanaugh, Douglas County Clerk/Comptroller
T. Paul Tomoser, Audit Committee Chair
Jack Armitage
Ron Bucher
Joni J. Davis
Kathleen Kelley, Chief Administrative Officer
John LeMay, Purchasing Agent
Fred Weber

FROM: Mike Dwornicki, Internal Audit Director

DATE: March 29, 2011

SUBJECT: Fuel Inventory Follow-Up.

I have completed an audit of the County's process to reconcile the various fuel inventory systems to each other and to the fuel tank meter readings. The purpose of the audit was to determine if Garage personnel had adequately responded to prior findings identified by Internal Audit. The audit revealed that the procedures in place need to be improved to provide the appropriate controls to reduce the level of risk associated with a highly desirable product such as unleaded and diesel fuels. The details related to the products appear below. Internal Audit has reviewed this report with the Purchasing Agent. His responses as provided to Internal Audit appear after the recommendations.

Background

A prior year audit conducted by the County's Internal Auditors identified discrepancies between the GASBOY and FASTER fuel tracking systems. The County GASBOY system is used to track fuel delivered through four pumps at the County Garage at 154th and Maple. The system generates a file of transactions that is then used as the source to record pump transactions within the FASTER system which is used for all fleet operations at the County. Consequently, the quantities pumped should be the same in each system. A prior year audit conducted by the County's Internal Auditors identified a discrepancy between the GASBOY and FASTER fuel tracking systems. Further investigation revealed that the discrepancy was not followed-up by management to determine the cause of the difference. A similar discrepancy was identified in the audit conducted by Internal Audit the prior year. The audit also found that computers used for the GASBOY and FASTER systems were not locked by the users when not in use. These

findings were included in the Hayes and Associates Douglas County management letter associated with the 6/30/2010 financial audit.

Objective

The objective of the audit was to determine if the Douglas County Garage internal controls were adequately designed and working effectively to ensure that all fuel transactions were completely and accurately recorded.

Scope

The County fuel transactions recorded in the GASBOY and FASTER systems from 1/19/2011 through 2/2/2011 were examined. The audit included an analysis of data used to track the transactions and the security over the GASBOY and FASTER systems including adequate segregation of duties.

Methodology

The evidence gathering and analysis techniques used in order to meet the audit objectives included, but were not limited to:

- Interviews of Garage personnel including inventory control personnel and management.
- Examination of the daily reconciliation reports over the two week period for reasonableness, formula accuracy, completeness of all data and agreement to source documentation.
- Review of the raw transaction files generated by the GASBOY system for agreement with the FASTER and GASBOY systems.
- Review of FASTER and GASBOY reporting capabilities and system documentation.
- Analysis of the duties of persons tracking the fuel transactions.

Findings

Segregation of Duties

Criteria: Duties should be adequately segregated so that one person does not have custody of assets and be responsible for recording the transactions related to the same assets. There should also be procedures in place to detect any unauthorized use of assets in a timely fashion.

Condition: Access to the FASTER and GASBOY systems was inadequately controlled. Duties inadequately segregated include the following:

- The Inventory Control Clerk and the Garage Clerk processed fuel transactions in the GASBOY and FASTER systems and also had access to the fuel through the use of employee and vehicle keys.
- The Inventory Control Clerk and the Garage Clerk both have the ability to change the transaction files created by GASBOY which are subsequently used in FASTER
- The Inventory Control Clerk also reconciles the FASTER and GASBOY systems to each other and to the fuel tank monitor.

Effect: The Inventory Control and Garage Clerks have the ability to fuel vehicles and change or delete the related transactions by changing the GASBOY transaction file. Management cannot rely upon the reconciliation process to detect any discrepancies because the reconciliation is completed by the Inventory Control Clerk.

Cause: The duties related to processing and tracking fuel transactions were not properly designed to prevent a segregation of duties conflict.

Recommendation: Remove the Garage Clerk's access to fuel keys. Removing access to fuel greatly reduces any incentive to alter the transaction file. After transactions are generated in GASBOY the Garage Clerk should use the GASBOY reporting function to generate a report of the transactions included on the GASBOY transaction file. Export the transaction report to an Excel format and generate control totals for the gallons and employee and vehicle key numbers. This will provide the means to balance GASBOY to FASTER to highlight any possible discrepancies in quantities pumped as well as who used the fuel. Use a daily fuel transaction report generated from FASTER that can also be used to generate control totals for fuel and key usage totals. The control totals from both reports should be agreed to each other and the daily reconciliation. The comparison should be completed by the Garage Supervisor.

Management Response:

Fuel Processing Procedures: The Douglas County Garage has recalled the fuel keys for the Garage Assistant and has been denied access to the fueling process. We have created separate folders on the "S:/" drive restricting access by the Garage Assistant and Inventory Control Clerk to store the GasBoy and Faster fuel transaction files. This process involves the first of two reconciliation process's. In this first process, Management will review all the files for consistency and monitor all reconciliations made to complete the Faster fuel process. This reconciliation process is necessary to resolve the Faster Fuel Transaction Error file which is generated when errors are identified while processing the GasBoy Raw Transaction files. This is a management function, it's done by the Garage Supervisor and in the absence of, the General Services Supervisor.

Fuel Reconciliation Process

Criteria: Reconciliations should include all pertinent data to provide meaningful information that will highlight discrepancies and lead to proper problem resolution. All reconciliation data should be complete and accurate. The reconciliations should bear evidence of who prepared it and the date of its completion. Reconciliations should be reviewed by management and bear evidence of the person who reviewed it and the date the review was completed.

Condition: The reconciliation process did not include an analysis of all pertinent information and did not include appropriate formal procedures. The following issues were noted:

- The reconciliations did not calculate the quantities pumped per the mechanical pump gauges for a comparison to the transactions recorded by GASBOY.

- There was no formal management review of the reconciliation or sign-off by the preparer to indicate the date of completion.
- There was one day of the two weeks reviewed when transactions were generated, but a reconciliation was not completed.

Effect: An incomplete and informal reconciliation process can result in inaccurate information and an ineffective problem resolution process. One means to detect system errors as well as unauthorized activity was not utilized because the pumps' mechanical gauge readings were not calculated and compared to the GASBOY system.

Without formal preparation and review procedures, management could not be sure that the reconciliations and any resulting issues were completed and resolved properly and promptly. Not preparing daily reconciliations can make it more difficult to pinpoint the specific times when problems occurred which in turn can make it more difficult to resolve problems.

Cause: Reconciliation procedures were not designed to include mechanical pump usage. There were no formal procedures in place to ensure reconciliations were completed daily and reviewed by management.

Recommendation: The County Garage should adopt formal reconciliation procedures. Reconciliations should be prepared each day and include the initials of the person who prepared the reconciliation and the date it was completed. It should also bear evidence of who reviewed it and the date it was reviewed. Any differences brought to light should be clearly evident and include an explanation of the issue and how it was resolved. Differences that are not resolved should remain on the reconciliation until final resolution.

The reconciliations should include all pertinent information and be complete and accurate. The reconciliation should include a calculation for the gallons used per the mechanical pump readings. The mechanical readings should be agreed to the GASBOY transactions and differences investigated and resolved.

Management Response:

Reconciliation Process: The second process will handle all reconciliations necessary to resolve discrepancies between the meter readings of the fuel monitoring system, fuel pump totalizers, GasBoy and Faster Inventory readings as reported by the Garage staff. Any reconciliation by Garage staff will be documented, reviewed and authorized by management before action is taken. Files will be kept and include the name of the person(s) completing the reconciliation and the initials and time stamp of the reviewing manager.

Fuel Corrections and Adjustments

Criteria: Error corrections and adjustments involve activity that is not routine. Management needs to monitor non-routine activity to ensure that it has been processed completely and accurately.

Condition: There is no formal management review of error corrections or adjustments made to the FASTER system.

Effect: Management may not be aware of unauthorized or incorrectly processed transactions that have occurred.

Cause: Management has not designed a process to formally review non-routine activity in a timely fashion.

Recommendation: The Garage Supervisor should review the documentation generated by the FASTER system when errors occur and are corrected. Each day the Garage Supervisor should print the report detailing FASTER adjustments and obtain appropriate explanations where appropriate for the items listed. The Supervisor should date and initial the report to document his review.

Management Response:

Corrections and Adjustment Process: This process is included in the Fuel Processing Procedures listed above.

Audit Standards

Internal Audit conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives.

Internal Audit appreciates the excellent cooperation provided by management and staff. If you have any questions or wish to discuss the information presented in this report, please contact Mike Dwornicki at 444-4327.